

SENETAS 2016 FULL YEAR RESULTS

29 August 2016

AGENDA

1. Highlights
2. Financial Overview
3. Operational Review
4. Outlook

HIGHLIGHTS



HY16 HIGHLIGHTS

- Record Net Profit Before Tax despite large increase in R&D spend
- Operating revenue increased 19%
- Good growth in both sales and maintenance revenue
- Strong unleveraged balance sheet and continued growth in cash balance
- All new product development projects on track
- 100Gbps encryptor currently undergoing certification



FINANCIAL OVERVIEW



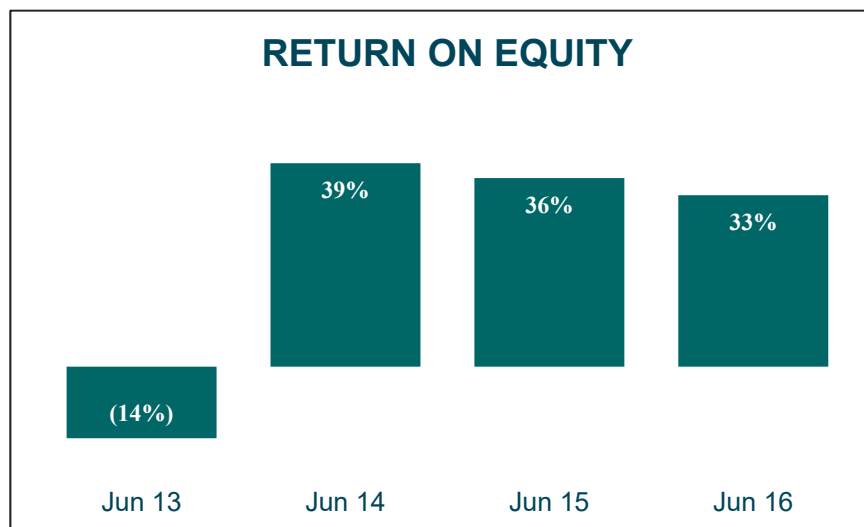
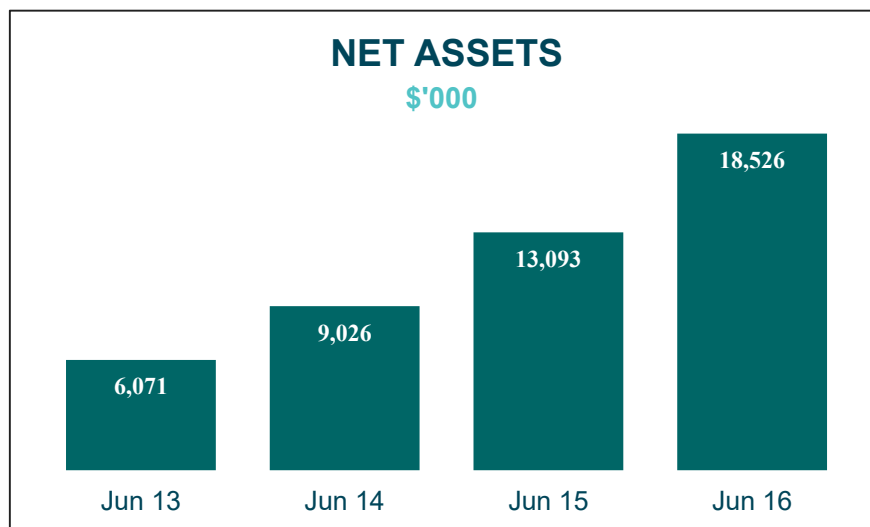
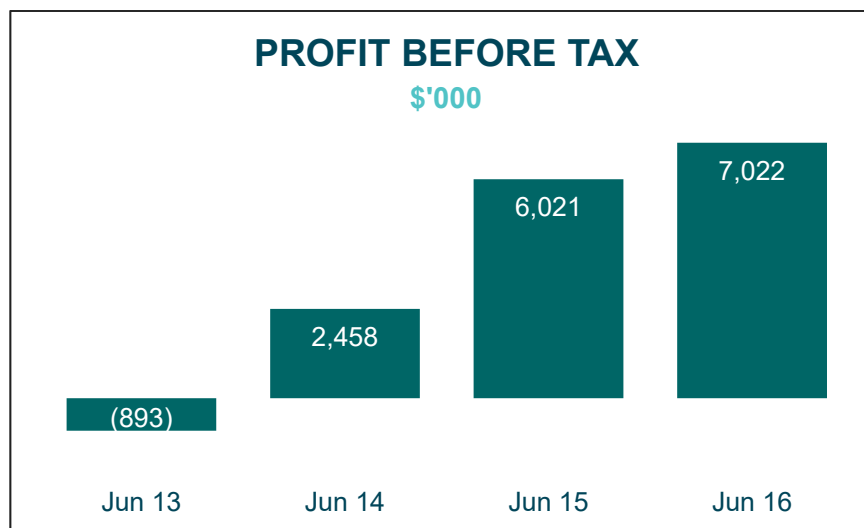
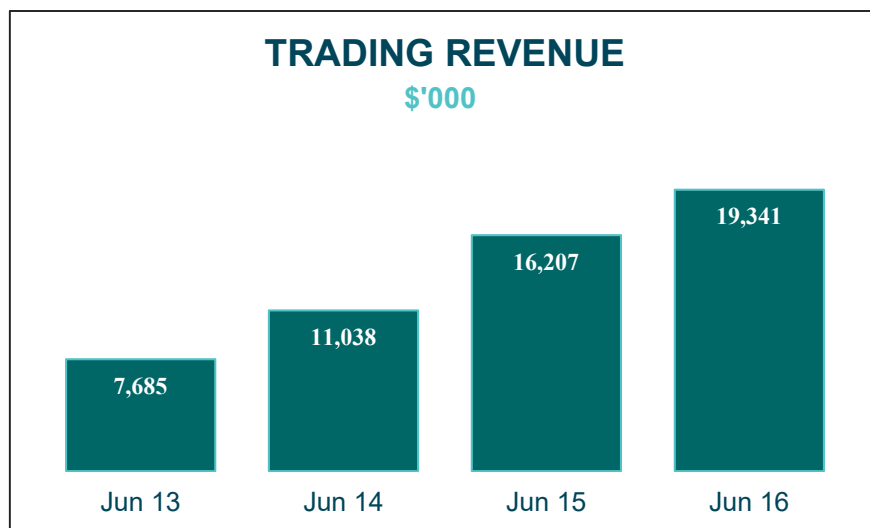
FY2016 FINANCIAL OVERVIEW

Year ended 30 June 2016	FY16 \$000's	FY15 \$000's	Change
Revenue from ordinary activities	19,341	16,207	19%
Gross profit	16,112	13,449	20%
Other income (R&D tax incentive)	2,097	1,653	27%
Profit before tax	7,022	6,021	17%
Tax expense	(1,803)	(2,005)	10%
Net profit after tax	5,218	4,016	30%

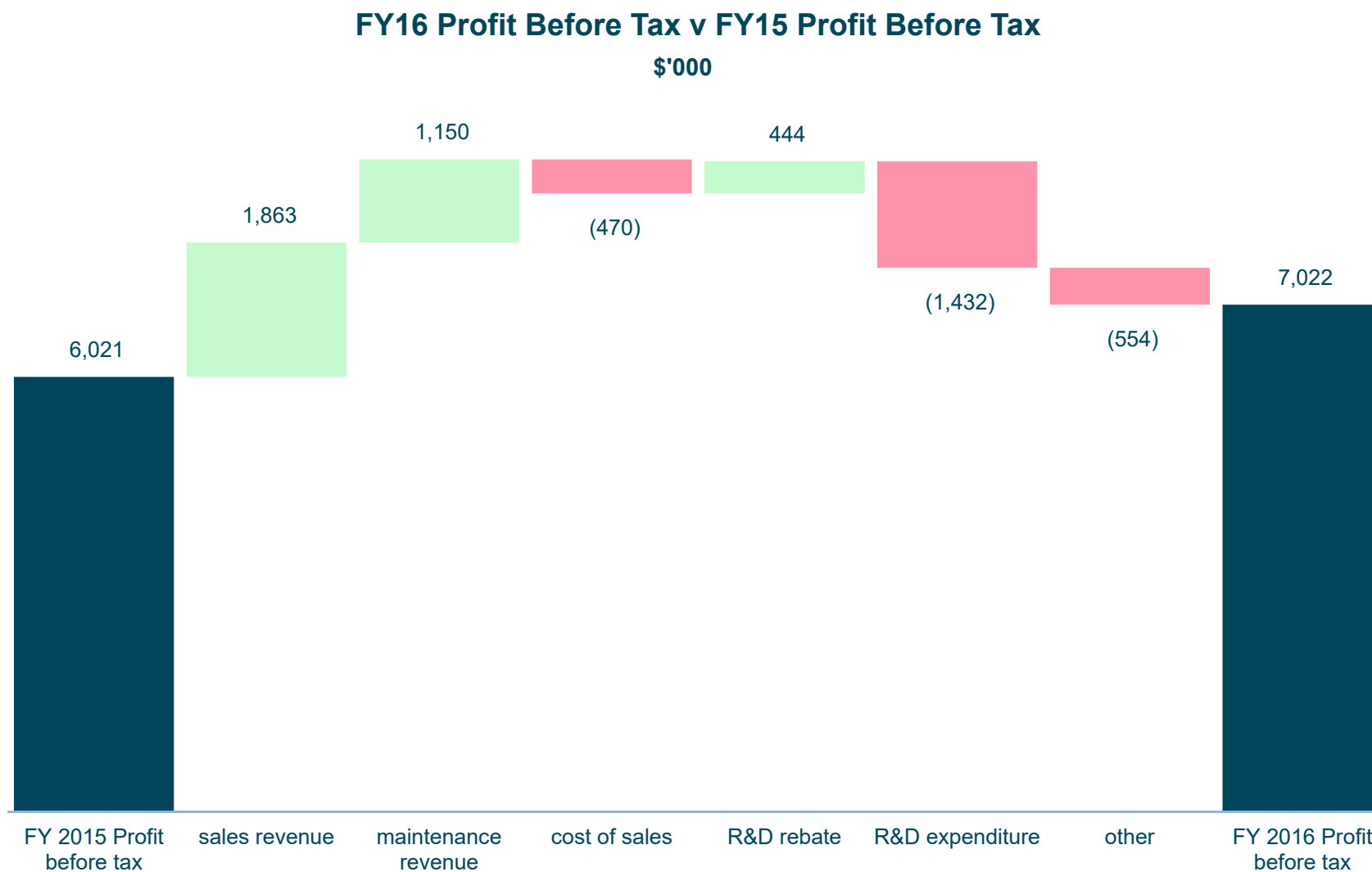
Record PBT driven by strong revenue growth

- Balance between sales and recurring maintenance revenue remains stable
- Revenue growth more than offset the \$1.43m increase in R&D spend in FY16
- Tax expense benefited by \$0.94m due to prior year tax losses utilised – and \$0.21m tax credit from booking the remaining carried forward tax losses
- Commercial sales growing significantly reflecting increasing cyber security concerns

SIGNIFICANT POSITIVE TREND ON KEY METRICS



KEY DRIVERS OF PROFIT GROWTH



OPERATING CASH FLOWS

Year ended 30 June 2016	FY16 \$000's	FY15 \$000's	Change
Receipts from customers	19,929	19,217	4%
R&D tax rebate net of income tax paid	323	1,386	(77%)
Payments to suppliers & employees	(14,230)	(11,307)	(26%)
Operating cash flows	5,193	9,577	(46%)
Investing cash flows	(244)	(470)	48%

Growth in customer receipts offset by increased R&D spend, growth in receivables and income tax payable for the first time during FY16:

- Higher payments to suppliers as Gemalto grew inventory levels during FY2016.
- R&D spend in FY16 increased by \$1.43m.
- Income tax payable in FY16 of \$1.25m (nil in FY15).

R&D tax rebate received in FY16 of \$1.6m – up from \$1.4m in FY15:

- Increased FY16 R&D spend will result in a cash rebate due in the first half of FY17 of approx. \$2.1m.
- Refer to Appendix for commentary on the outlook for Senetas' R&D rebate.

BALANCE SHEET

As at 30 June 2016	FY16 \$000's	FY15 \$000's	Change
Cash and cash equivalents	20,848	15,902	31%
Trade and other receivables	5,927	4,043	47%
Total assets	29,474	22,392	32%
Trade and other payables	(1,973)	(2,068)	5%
Income / company tax payable	(1,863)	(1,252)	(49%)
Unearned income	(6,234)	(5,116)	(22%)
Total liabilities	(10,948)	(9,298)	(18%)
NET ASSETS	18,526	13,093	41%

Strong Balance Sheet with capacity to support growth:

- Cash balance provides ongoing flexibility for organic growth and investment opportunities.
- Increase in receivables reflects higher sales late in June and higher R&D rebate receivable.
- Unearned income reflects prepaid maintenance contracts.
- No debt.

OPERATIONAL REVIEW



FY16 OPERATIONAL REVIEW

Strong growth in commercial sales more than offset slower sales to key government customers

- Commercial sector sales growth driven by key North American customers
- Commercial customers now represent over 50% of Senetas operating revenue
- Stronger than projected sales in June 2016
- Delayed commercial sales at HY16 were completed prior to 30 June 2016
- Some of the delayed government sales at HY16 will now not proceed as SONET encryptors are phased out – Senetas expects its Ethernet encryptors will replace the SONET encryptors
- Growth in maintenance revenue will moderate as higher cost SONET maintenance contracts roll off over the next 3-4 years
- A more direct ‘hands on’ role in sales, marketing and business development with our key partners
- Working with Gemalto to significantly improve its Government business

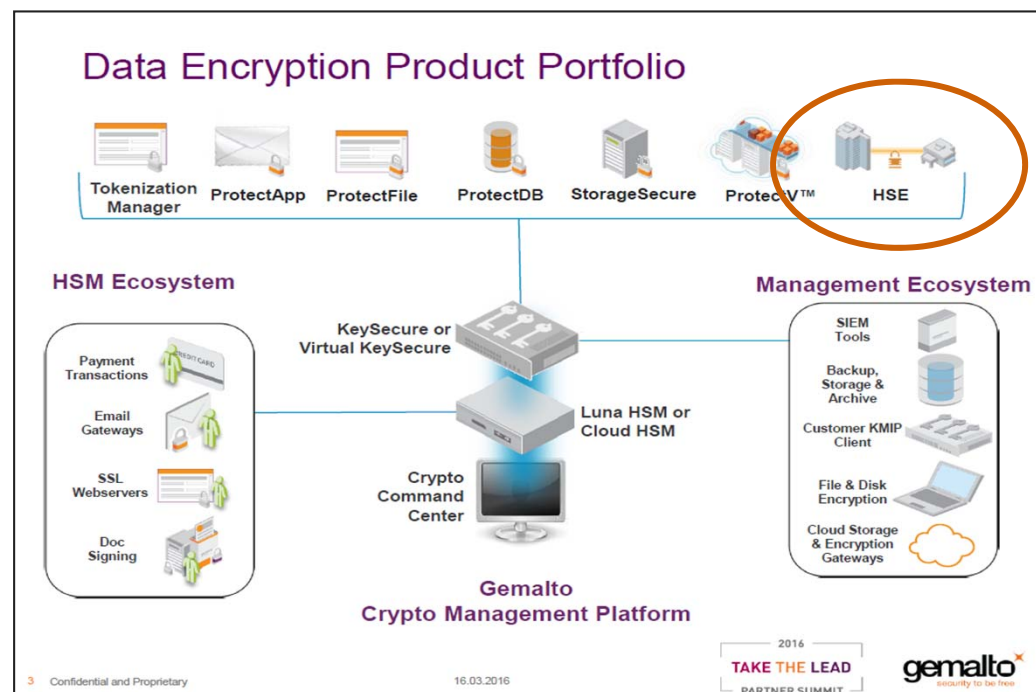
Increased investment in R&D during the year has accelerated key new product developments

- All activity on track with new products due to become revenue producing in the 2017 calendar year and beyond
- R&D costs in FY17 are expected to be similar to FY16
- Potential new product developments also under review

GEMALTO RELATIONSHIP

Gemalto / SafeNet integration now largely complete

- Significant executive restructure – new executive team now in place with key executives promoted from within SafeNet.
- Split of US Federal Government business into separate entity.
- Noticeable increase in sales focus in the 6 months to June 2016 – commitment to increase the size of the sales force responsible for HSE by up to 20%.



Gemalto remains committed to HSE

- Senetas solutions are now formally identified as a part of the Gemalto Data Encryption Ecosystem.
- Senetas is taking a more direct role in business development opportunities – more 'hands on' with strategic accounts, sales calls and key technology relationships.

RESEARCH & DEVELOPMENT UPDATE

100Gbps Encryptor

- Certification process underway and customer testing to commence shortly – expected to be completed before the end of calendar 2016
- Precise timing of commercial release is subject to certification and component availability
- At this stage the first sales are expected to be recognised early in calendar 2017



CN9100 – 100G ultra-high-speed high-assurance encryptor – 'Carrier grade' ultimate security for Big Data, data centre and Cloud backbones

Custom algorithm products

- Currently undergoing testing and certification
- Commercial release date subject to certification and export approvals – current expectation is late FY17

Virtual encryption technologies

- Development ahead of schedule and now available for customer testing
- Expected to become revenue producing late in FY17



CN6100 – certified high-assurance network data encryptor – 'Carrier grade' 10G high-speed performance

OUTLOOK



2017 PRIORITIES

- **A highly innovative and responsive R&D capability remains at the core of Senetas' business** – continuing to develop new products to meet emerging customer needs including faster, 'high density' hardware and software solutions, and custom products to suit unique customer requirements
- **Leverage the Gemalto relationship** to increase access to regions and industries in which Senetas currently has low penetration
- **Assist Gemalto to grow revenue and further strengthen Senetas' in market sales and marketing capability to identify and realise sales opportunities:** building stronger relationships with Gemalto and end user customers; identifying emerging customer needs; and driving the sales of new products
- **Continue to develop new technology partnerships to expand the reach and capabilities of Senetas products** – new avenues to market with significant customer access
- **Identify and develop the drivers of Senetas' long term growth** – expansion into new markets via new product developments leveraging internal expertise and partner relationships, and exploring compelling acquisition opportunities

COMPETITIVE ENVIRONMENT

Senetas has the most certifications and is the only global player in Layer 2 high assurance encryption

Layer 1 Optical	Layer 2 – Ethernet		Layer 3 IP Sec
	End to End High Assurance	MACSec IEEE Low Assurance	
CISCO	Senetas/Gemalto (Global)	CISCO	CISCO
Juniper	AT Media/Trales/Secunet (Europe/USA)	Juniper	Juniper
CIENA	Rhode & Schwartz (Europe)	HP, Avaya, Huawei, Dell, Arista, ZTE, Brocade	Many other vendors including all firewall companies and security software vendors
ADVA	Infoguard (Middle East/Asia)	VIASAT	
Alcatel-Lucent	Certes Networks (USA/Asia)		

Layer 2 is estimated to have doubled its share of the encryption market over the past 3-4 years

Layer 1 Optical	Layer 2		Layer 3 - Internet
	End to End	MACSec	
10%	20%		70%
OTN	20%	80%	SSL, IPSec, others

KEY DEMAND DRIVERS

Demand for Senetas products will be driven by a number of key factors:

1. Customers replacing redundant hardware – effective life cycle of 5-7 years
2. Growth in data volumes across Layer 2 networks
3. Technological advancements and new product development – release of new products such as the 100Gbps encryptor
4. Increased recognition by commercial organisations of the need to encrypt their sensitive data – IP protection, customer data protection, liability limitation and competitive advantage
5. Government regulation requiring data protection – e.g. data breach notification and privacy protection legislation



CN6100 – carrier grade 10G high assurance encryptor



CN4010 – compact and versatile high assurance encryptor



CN9100 – 100G ultra-high speed high assurance encryptor

The growth outlook remains very positive; however, sales lead-times are long and customers are reluctant to disclose detail about purchase intentions – sales growth rates therefore remain difficult to predict

SUMMARY AND OUTLOOK

- Record FY16 PBT driven by growth in sales to commercial customers
- Gemalto integration of SafeNet now largely complete with improved sales focus evident in the second half of FY16
- Key R&D projects remain on track – R&D expenditure in FY17 is expected to remain at a similar level to FY16
- Senetas is increasing direct engagement in sales, marketing and business development to support its distribution partners
- Growing awareness of the need for high assurance encryption and the growth in data flows across Layer 2 networks create significant opportunities for Senetas' products and services
- Whilst the growth outlook for the sector is extremely positive – Senetas' revenue growth rates remain difficult to predict accurately – sales remain 'lumpy' and weighted towards late in each half year
- The new 100Gbps encryptor is an exciting opportunity for the company – customer interest remains very strong but too early to predict the scale of initial orders
- Custom algorithm and virtual encryption technologies are also expected to add to revenue growth in the second half of FY17

APPENDIX



APPENDIX – R&D Rebate

R&D rebate and tax expense consequences for Senetas should its annual operating revenue exceed \$20 million in future years

Operating revenue below \$20m per annum

- Currently Senetas receives a tax rebate from the Australia Government for eligible R&D expenditure – cash rebate of 45% of eligible R&D.
- The rebate is currently recorded as 'Other Income' and is received in cash (net of any corporate income tax payable) in the following financial year.
- Expenditure eligible for the R&D rebate is not deductible for the purposes of calculating Senetas' corporate income tax liability.
- The rebate remains available to Senetas whilst its operating revenue remains below \$20m per annum.

Operating revenue above \$20m per annum

- Should Senetas' operating revenue exceed \$20m in future years the R&D rebate would no longer be available.
- Instead the R&D rebate converts to a tax offset equal to 40% of eligible R&D expenditure.
- The eligible R&D expenditure would remain not deductible for the purposes of calculating Senetas' corporate income tax liability.
- In such a year, Senetas' Other Income and Profit Before Tax would be lower by the amount of the R&D rebate previously available (\$2.1 million in FY2016), however, tax expense will be reduced by an offset equal to 40% of its eligible R&D expenditure.
- Senetas estimates that in those circumstances its effective tax rate would be in the low to mid 20's as a percentage of Profit Before Tax.

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